



California Pollution Control Financing Authority



2013 ANNUAL REPORT TO THE GOVERNOR AND THE CALIFORNIA STATE LEGISLATURE

MAY 2014

About the California Pollution Control Financing Authority:

Mission Statement: As public servants, we are committed to promoting access to capital through the delivery of diverse financing options to California business and environmental industries by being a:

- Driving force of public and private partnerships.
- Leader in offering customized risk mitigation tools.
- Facilitator of projects that protect and restore the environment.

The California Pollution Control Financing Authority (CPCFA) provides California businesses with financing options for pollution control facilities and small businesses. CPCFA, founded 41 years ago, administers programs serving a variety of goals, including:

- Helping businesses construct solid waste, recycling, water and wastewater projects as a conduit issuer of tax-exempt bonds.
- Assisting small businesses in obtaining loans for business start-up and expansion and working capital through the California Capital Access Program (CalCAP) and Collateral Support Program.
- Collaborating with the Air Resources Board (ARB) to provide lenders with loan loss reserve accounts to finance new, cleaner-burning heavy duty diesel trucks and buses.
- Transforming brownfields into vibrant housing and retail developments that enhance communities in the California Recycle Underutilized Sites Program (CALReUSE).

This annual report to the Governor and Legislature describing the CalCAP and Collateral Support Program is prepared pursuant to Health and Safety Code section 44559.6.

CPCFA consists of:

Bill Lockyer, Chair
State Treasurer

John Chiang
State Controller

Michael Cohen, Director
Department of Finance

<http://www.treasurer.ca.gov/cpcfa/index.asp>



EXECUTIVE SUMMARY

CalCAP enjoyed another record-breaking year assisting small businesses in California, effectively deploying funds from the federal State Small Business Credit Initiative (SSBCI) and building on its partnership with the Air Resources Board (ARB) to expand the innovative ARB/CalCAP On-Road Heavy Duty Diesel Program.

In 2013, CalCAP recruited 17 new lenders to participate in the program and 38 lenders enrolled loans. CalCAP lenders enrolled 3,236 loans and loaned \$205 million in 2013, an increase of about 39 percent in the number of loans and 63 percent in the amount of money loaned compared with 2012. About \$32 million in premiums were deposited to lenders' loan loss reserve accounts. CPCFA staff processed and approved 109 claims filed by lenders against their loan loss reserve accounts. Approximately \$2.6 million was paid from the loss reserve accounts.



PROGRAM FUNDING SUMMARY

The California Capital Access Program for Small Businesses (CalCAP) was established by legislation enacted in 1994. CalCAP is administered by the California Pollution Control Financing Authority (CPCFA). CalCAP assists small businesses in obtaining loans through participating financial institutions (lenders). CalCAP is a form of loan portfolio insurance which may provide up to 100% coverage on certain loan defaults. Each lender is entirely liable for its loan losses; however, those losses can be reimbursed from each lender's loan loss reserve account. The loss reserve accounts are built through contributions made by the borrower, lender, and CPCFA.

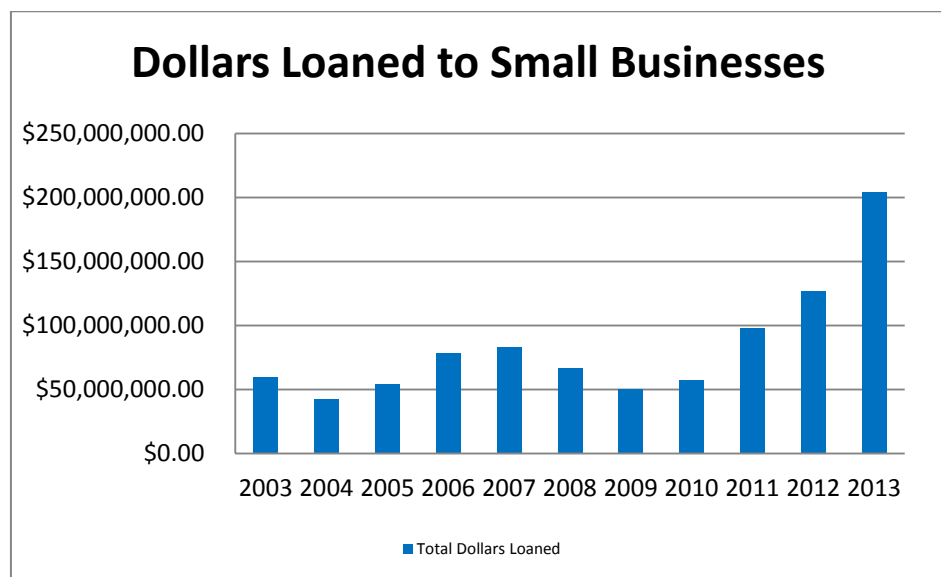
Prior to 2010, CalCAP was funded from small business assistance fees collected from CPCFA's bond issuance. In October 2010, the Legislature appropriated \$6 million from the State General Fund to the program. In 2011, CalCAP expanded rapidly due to funds from the United States Treasury State Small Business Credit Initiative (SSBCI), made available by the Small Business Jobs Act of 2010. CPCFA was awarded half of the total \$168 million allocation to the State of California. The new funds enabled CalCAP to increase lending assistance for California small business owners. In 2011, CPCFA received the first injection of \$27.8 million of SSBCI funds. In 2013, CPCFA received a second \$27.8 million tranche of federal funds and continued to expand the program by creating the Collateral Support Program. The third and final tranche is expected to be disbursed to California in 2014. CPCFA continues to use the State general fund

money as supplemental assistance for loan enrollments which are located in areas of high unemployment, and for the regular contributions for loans which may not be eligible under the stricter SSBCI requirements.

In addition to the SSBCI and State-funded CalCAP programs, CPCFA administers a loan loss reserve program funded by ARB to assist owners and operators of small fleets of heavy-duty diesel trucks achieve early compliance with ARB's Statewide Truck and Bus Regulation designed to reduce diesel particulate matter emissions. As an Independent Contributor to the ARB/CalCAP On-Road Heavy Duty Diesel Program, ARB disbursed \$38.4 million to CPCFA through the end of 2013 to fund loan loss reserve funds for lenders specializing in lending to small fleets.

As of December 31, 2013, CalCAP had \$28,212,025.53 in federal funds remaining to support both CalCAP and the Collateral Support Program, and \$4,220,803.73 in State funds remaining to support loans in areas of high unemployment. In addition, CalCAP had \$1,847,477.64 in funding remaining from ARB to support loans under the On-Road Heavy Duty Diesel Program.

The following graph compares CalCAP contributions to Loss Reserve Accounts to dollars loaned over the past ten years.



**Includes contributions from all independent contributor programs*

On January 21, 1999, CalRecycle (then the California Integrated Waste Management Board) entered into an interagency agreement with CPCFA to act as an Independent Contributor. CalRecycle provided \$500,000.00 to contribute to lenders' loan loss reserve accounts for

businesses that meet CalRecycle's criteria of source reduction, reuse, and recycling. Under this contract, CalRecycle agrees to pay the borrower's and lender's portion of the contribution and CPCFA matches the combined contribution. This contract will be in effect until June 1, 2015. In 2013, there were no loans made in this Program, so no data is reported this year.

CALCAP SMALL BUSINESS PROGRAM RESULTS

By participating in CalCAP, lenders have a financing mechanism that meets the financing needs of California small businesses.

2013 was the largest year in program history by volume. CalCAP enrolled a record 1,506 loans.

CalCAP Loan Volume – In 2013, CalCAP enrolled 1,506 loans made to 1,331 California small business owners. This total surpasses CalCAP's biggest year prior to 2013 by 295 loans. As of December 31, 2013 the total number of loans enrolled in CalCAP since 1994 is 10,927.

CalCAP Loan Dollars – In 2013 over \$45 million was enrolled in CalCAP out of the approximately \$55 million in dollars loaned. The average loan size was approximately \$36,805.66. As of December 31, 2013, CalCAP lenders have cumulatively loaned about \$1.4 billion since the program began in 1994.

CalCAP Microloans – Of the 1,506 loans made to California small business owners in 2013, 1,278 loans totaling approximately \$12 million were microloans under \$40,000.

CalCAP Jobs – In 2013, loans enrolled in CalCAP helped create 776 new jobs and retain 5,816 existing jobs.

CalCAP Loans by Industry – The following chart describes the distribution of enrollment activity by sector, using the North American Industry Classification System (NAICS) Sector number.



NAICS Sector	Description	Number of Enrollments	Dollars Loaned	Dollars Enrolled
11	Agriculture, Forestry, Fishing and Hunting	27	\$1,390,262.95	\$448,075.00
21	Mining, Quarrying, and Oil and Gas Extraction	2	\$13,076.00	\$13,076.00
23	Construction	80	\$4,741,360.64	\$4,390,560.89
31-33	Manufacturing	117	\$5,501,821.71	\$4,321,070.39
42	Wholesale Trade	117	\$6,004,816.88	\$5,831,436.80
44-45	Retail Trade	363	\$6,692,248.46	\$5,621,846.58
48-49	Transportation and Warehousing	173	\$7,225,652.26	\$5,303,174.86
51	Information	16	\$1,211,802.00	\$658,466.00

Construction and Manufacturing Businesses accounted for about 20% of the dollars enrolled in CalCAP in 2013.

52	Finance and Insurance	8	\$79,282.00	\$78,024.07
53	Real Estate and Rental and Leasing	23	\$917,639.74	\$677,639.74
54	Professional, Scientific, and Technical Services	45	\$1,209,894.85	\$1,184,894.85
56	Administrative and Support and Waste Management and Remediation Services	109	\$7,281,093.17	\$4,599,872.41
61	Educational Services	13	\$375,040.99	\$322,040.99
62	Health Care and Social Assistance	42	\$2,601,420.64	\$2,012,844.53
71	Arts, Entertainment, and Recreation	10	\$225,090.00	\$167,715.00
72	Accommodation and Food Services	244	\$7,617,574.48	\$7,311,627.26
81	Other Services (except Public Administration)	117	\$2,341,245.01	\$2,227,195.01

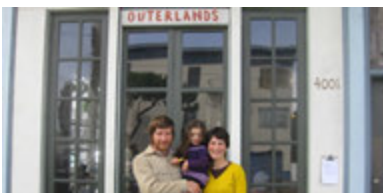
Geographic Area Served – Exhibit A shows the distribution of the loans enrolled in 41 counties and indicates the number of enrollments and approximate dollars loaned.

Financial Condition

CalCAP Loan Loss Claims - CalCAP processed and approved 58 claims filed by lenders against their loan loss reserve accounts in 2013, totaling approximately \$1.5 million. This is an increase in payments of about 36 percent, compared to claims paid in 2012.

CALCAP SMALL BUSINESS PROGRAM RESULTS DETAILED BY FUND

U.S. Treasury State Small Business Credit Initiative Fund – Beginning April 1, 2011 CPCFA provided contributions to loan loss reserve accounts using federal funds from the State Small Business Credit Initiative (SSBCI).



SSBCI Funds Loan Volume – In 2013 CalCAP enrolled 1,495 loans to California small business owners using SSBCI funds, bringing the total number of CalCAP loans funded by SSBCI up to 3,405.

SSBCI Funds Loan Dollars – CalCAP lenders loaned \$52,970,686.78 in 2013 bringing the total loaned since the SSBCI program began to \$143 million.

SSBCI Funds Loan Contributions – CPCFA contributed \$1,948,234 of SSBCI funds to CalCAP loans in 2013.

SSBCI Funds Jobs – During the period of January 1, 2013 through December 31, 2013 there were 763 jobs created and 5,563 jobs retained in California as a result of loans enrolled using SSBCI funds.

SSBCI Loan Loss Claims – CalCAP processed and approved 37 claims filed by lenders against their loan Loss Reserve Accounts, totaling \$334,401.02 in payments.



State Funds – In October of 2010, CalCAP was appropriated \$6 million from the State General Fund. CPCFA used the State funds to cover contributions for CalCAP enrollments prior to receipt of the SSBCI funds and to cover contributions for those loan enrollments that did not qualify for the SSBCI fund after April 1, 2011. The funds also help meet a mandate for added incentives in economically distressed areas.

State Funds Loan Volume – In 2013, CalCAP enrolled 11 loans to California small business owners using the State funds, bringing the total number of CalCAP loans funded solely by State monies up to 392.

State Funds Loan Dollars – CalCAP lenders loaned \$2,458,635.00 in 2013 bringing the total loaned since the State program began to \$26.9 million.

State Funds Loan Contributions – CPCFA contributed \$79,824 of State funds to CalCAP loans in 2013.

State Funds Jobs – In 2013 the 11 loans enrolled with State funds contributed to creating 13 jobs and retaining 253 jobs in California.

State Funds Loan Claims – CalCAP processed and approved 21 claims filed by lenders against their loan Loss Reserve Accounts, totaling \$1,251,182.82 in payments.

Severely Affected Communities (SAC) – Of the 1,506 loans enrolled with SSBCI and State funds, 755 were located in an Enterprise Zone or High Unemployment Area. CPCFA contributed additional premiums in the amount of \$403,248 from State funds for those small businesses.

Of the enrolled 1,506 loans to eligible small businesses, approximately 50% were located in economically distressed areas and received added incentives.

COLLATERAL SUPPORT PROGRAM



The Collateral Support Program was designed to enable financing that might otherwise not occur due to a collateral shortfall, for small businesses in California. In January 2013, the Collateral Support Program was approved by the U.S. Treasury as part of CPCFA's \$84 million allocation under SSBCI. Under the program, CPCFA provides a cash deposit to the lender to hold as partial insurance against potential

**The first 27
Collateral Support
loans created 242
jobs throughout the
state.**

loss, and the lender refunds the deposit back to CPCFA in annual installments according to a defined recapture schedule.

Collateral Support Loan Volume – In 2013, CPCFA enrolled 27 loans to 23 California small business owners.

Collateral Support Loan Dollars – In 2013, Collateral Support leveraged over \$33 million dollars in lending. The average loan size was approximately \$1.2 million.

Collateral Support Loan Contributions – Under the program, CPCFA deposited a total of \$14.7 million for \$33 million disbursed to small businesses.

Severely Affected Community (SAC) – Of the 27 loans enrolled with SSBCI funds, 16 were located in an Enterprise Zone or High Unemployment Area. Collateral Support contributed additional premiums in the amount of \$1.45 million for these small businesses.

Collateral Support Jobs – In 2013, loans enrolled in Collateral Support helped create 242 new jobs and retain 376 existing jobs.

Collateral Support Loans by Industry - The following chart describes the distribution of enrollment activity by sector, using the North American Industry Classification System (NAICS) Sector number.



NAICS Sector	Description	Number of Enrollments	Dollars Loaned	Collateral Support Used
11	Agriculture, Forestry, Fishing and Hunting	2	\$395,000	\$197,500
23	Construction	4	\$8,664,000	\$3,465,600
31-33	Manufacturing	4	\$5,190,000	\$2,121,000
42	Wholesale Trade	3	\$4,550,000	\$2,235,000
44-45	Retail Trade	3	\$1,697,100	\$848,550
48-49	Transportation and Warehousing	1	\$245,000	\$98,000
54	Professional, Scientific, and Technical Services	4	\$7,200,106	\$3,217,553
61	Educational Services	1	\$100,000	\$50,000
72	Accommodation and Food Services	2	\$827,000	\$413,500
81	Other Services (except Public Admin)	3	\$4,347,500	\$2,090,950

Geographic Area Served – Exhibit B shows the distribution of the loans enrolled in 11 counties and indicates the number of enrollments and approximate dollars loaned.

Financial Condition

Collateral Support Claims - Collateral Support lenders did not report any defaults or file any claims in the Program's initial year.

Collateral Support Recapture – Loans supported by the Collateral Support Program are subject to an annual recapture of the funds on deposit, beginning in 2014. The recaptured funds can be used for future CalCAP and Collateral Support loans.

Collateral Support Funds Used and Remaining – Of the total \$84 million in funds from SSBCI, CPCFA initially allocated \$35 million to the Collateral Support Program. As of December 31, 2013, \$14.7 million was utilized. Depending on the demand for the program, additional SSBCI funds may be reallocated to the Collateral Support Program under the State's agreement with the U.S. Treasury.

CALIFORNIA AIR RESOURCES BOARD FUNDS

In May of 2009, the California Air Resources Board (ARB) began participating in CalCAP as an independent contributor for the On-Road Heavy-Duty Diesel Vehicle Program. ARB partnered with CPCFA to assist small business owners with heavy-duty diesel trucks in meeting state air quality regulations. ARB contributes 20 percent of each loan enrolled (up to \$1 million in contributions, after which the rate is reduced to 10 percent) to the lender's loan loss reserve account.



Currently, 29 lenders have signed up to participate in the ARB On-Road Heavy-Duty Diesel Vehicle Program. Fourteen of those lenders have enrolled loans in the Program as of December 31, 2013.

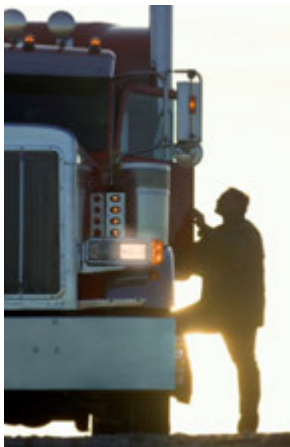
In January of 2012, in another partnership with the ARB, the Proposition 1B Loan Assistance Program began. Only borrowers who received an invitation letter from ARB stating that they qualify to receive a grant are eligible to participate in the program. Loans enrolled in the Proposition 1B Loan Assistance Program can be used to finance 2007 or newer engine year model heavy-duty diesel trucks, or liquid natural gas (LNG), over 14,000 GVWR. Five of the ARB On-Road Program lenders participated in the Proposition 1B Program in 2013.

CALIFORNIA AIR RESOURCES BOARD PROGRAM RESULTS

2013 was the largest year in program history by volume. CalCAP enrolled a record 1,703 loans ARB Programs.

ARB Loan Volume – In 2013, ARB enrolled 1,703 loans made to 1,631 California small business owners to purchase or retrofit cleaner diesel trucks. This total surpasses ARB's biggest year prior to 2013 by 582 loans. As of December 31, 2013 the total number of loans enrolled in the two diesel truck programs since inception is 3,856.

CalCAP contributed to putting 1,915 cleaner emission trucks on the road this year, a 39% increase over 2012



On-Road Loan Volume – In 2013, lenders enrolled 1,646 loans for the purchase of 1,798 trucks, 8 trailers and 49 diesel exhaust retrofits. Since the inception of the ARB On-Road Heavy-Duty Diesel Vehicle Program in 2009, the number of loans enrolled is 3,720.

Proposition 1B Loan Volume – In 2013, lenders enrolled 57 loans for the purchase of 68 trucks under ARB's Proposition 1B Program. Since the inception of the ARB On-Road Heavy-Duty Diesel Vehicle Program in 2009, the number of Prop 1B loans enrolled is 136.

ARB Loan Dollars – In 2013, \$115,934,392.44 in total loans were enrolled in the two ARB Programs, bringing the total amount enrolled since program inception to \$254,458,950.32. In 2013, CPCFA paid contributions of \$14,894,239.22 towards that amount. The average loan size was approximately \$68,275.51.

On-Road Loan Dollars – \$112,052,936.91 was enrolled in 2013 bringing the total as of December 31, 2013 to \$246,610,214.44. In 2013, CPCFA paid contributions of \$14,117,948.09 towards that amount.

Proposition 1B Loan Dollars – \$3,881,455.53 was enrolled in 2013 bringing the total as of December 31, 2013 to \$7,848,735.88. In 2013, CalCAP paid contributions of \$776,291.13 towards that amount.

ARB Jobs – In 2013, loans enrolled in the ARB programs helped create 567 new jobs and retain 2,556 existing jobs.

On-Road Jobs – In 2013, loans enrolled in the ARB On-Road Heavy-Duty Diesel Vehicle Program contributed to creating 565 jobs and retaining 2,446 jobs.

Proposition 1B Jobs – In 2013, loans enrolled in the Proposition 1B Loan Assistance Program contributed to creating 2 jobs and retaining 110 jobs.

Terminal Rental Adjustment Clause (TRAC) Leases – In September of 2011, SB 225 (Simitian)(Chapter 492 of the Statutes of 2011) was approved by the Governor, which allows Terminal Rental Adjustment Clause (TRAC) Leases as a type of loan. A TRAC Lease is a different type of lending instrument that some lenders choose to use, giving borrowers another option for purchasing heavy-duty diesel vehicles. In 2013, CPCFA paid contributions of \$1,589,972.85 for 156 TRAC Leases. Of the \$112,052,936.91 enrolled in ARB On-Road Heavy-Duty

Diesel Vehicle Program, a total of \$13,045,372.73 was a result of enrolled TRAC Leases.

Geographic Area Served – Exhibit C shows the distribution of the ARB-funded loans enrolled in 40 counties and indicates the number of enrollments and approximate dollars loaned.

Financial Condition

On-Road Loan Loss Claims – CalCAP processed and approved 51 claims filed by lenders against their loan loss reserve accounts, totaling \$1,029,560.87 in payments.

Proposition 1B Loan Loss Claims – To date there have not been any claims in the ARB Proposition 1B Program.

On-Road Total Program Funds Remaining – As of December 31, 2013, the amount available from the \$38.4 million disbursement from ARB under the On-Road Heavy-Duty Diesel Vehicle Program was \$1,847,477.64.

Proposition 1B Program Funds Remaining – As of December 31, 2013, the amount available from the initial deposit remaining in the ARB Proposition 1B Loan Assistance Program was \$3,332,873.49. This program is currently inactive until ARB resumes issuing project approvals. There have not been any loans enrolled since April of 2013.

OUTLOOK FOR 2014

In April 2013, CPCFA launched its Collateral Support Program funded by SSBCI. The Program was well received by stakeholders and the funds were deployed quickly, resulting in the application for, and injection of, the second disbursement of the allocated funds from U.S. Treasury. We anticipate a similar pace of deployment in 2014, which will lead to an application for the third and final disbursement of the federal allocation.

During 2013, CPCFA staff served as members of the U.S. Treasury Best Practices Working Groups for Collateral Support and Loan Participation Programs. Treasury issued reports from those working groups in July 2013 to assist States with the compliance, development, and implementation of Programs to assist small businesses. The common theme of the best practices was to keep the SSBCI programs simple. This assistance allowed States to explore new opportunities to develop other credit support programs for 2014.

In 2014 CalCAP will expand its activities to include more opportunities to promote small business lending.



California anticipates launching a Loan Participation Program in 2014, targeted to assist lending in the areas of energy efficiency or alternative energy. CPCFA has allocated \$10 million to support this innovative program, and is researching whether there is sufficient lender or borrower interest to implement the innovative program this year.

Both the Collateral Support Program and the Loan Participation Program are designed to recycle funds. In the Collateral Support Program, a portion of the fund is returned to CPCFA on an annual basis and when the loan pays off. The Loan Participation RFP has an expectation that the \$10 million, minus any losses, will be returned to CPCFA within a two year period. The recycling of SSBCI funds allows CPCFA to continue the Programs beyond the 2017 expiration of the SSBCI program. Treasury and leverage public/private dollars at an accelerated rate. 2014 will yield the first of many years of recycled funds.

EXHIBIT A – GEOGRAPHIC AREA SERVED CALCAP SMALL BUSINESS

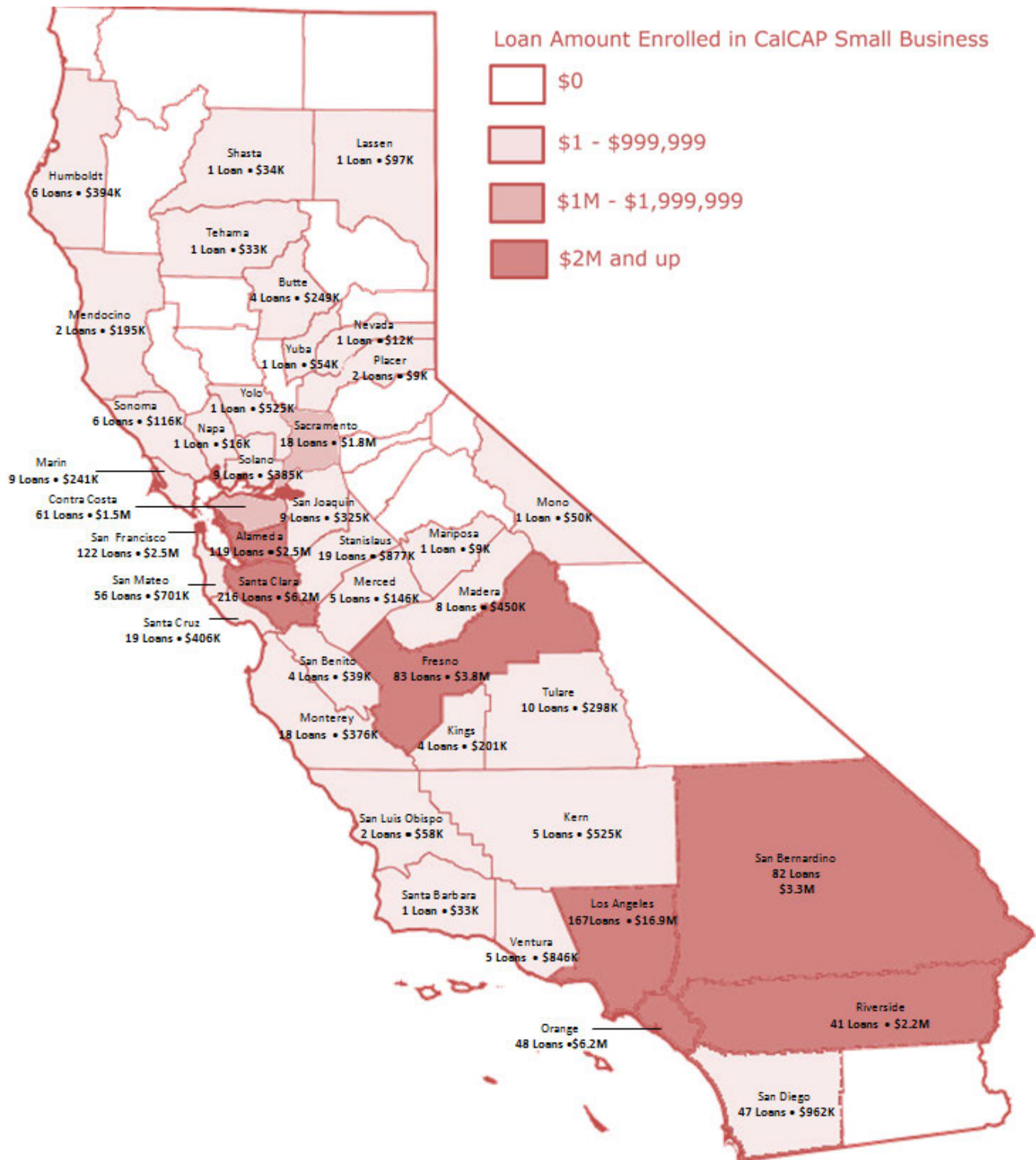


EXHIBIT B – GEOGRAPHIC AREA SERVED COLLATERAL SUPPORT

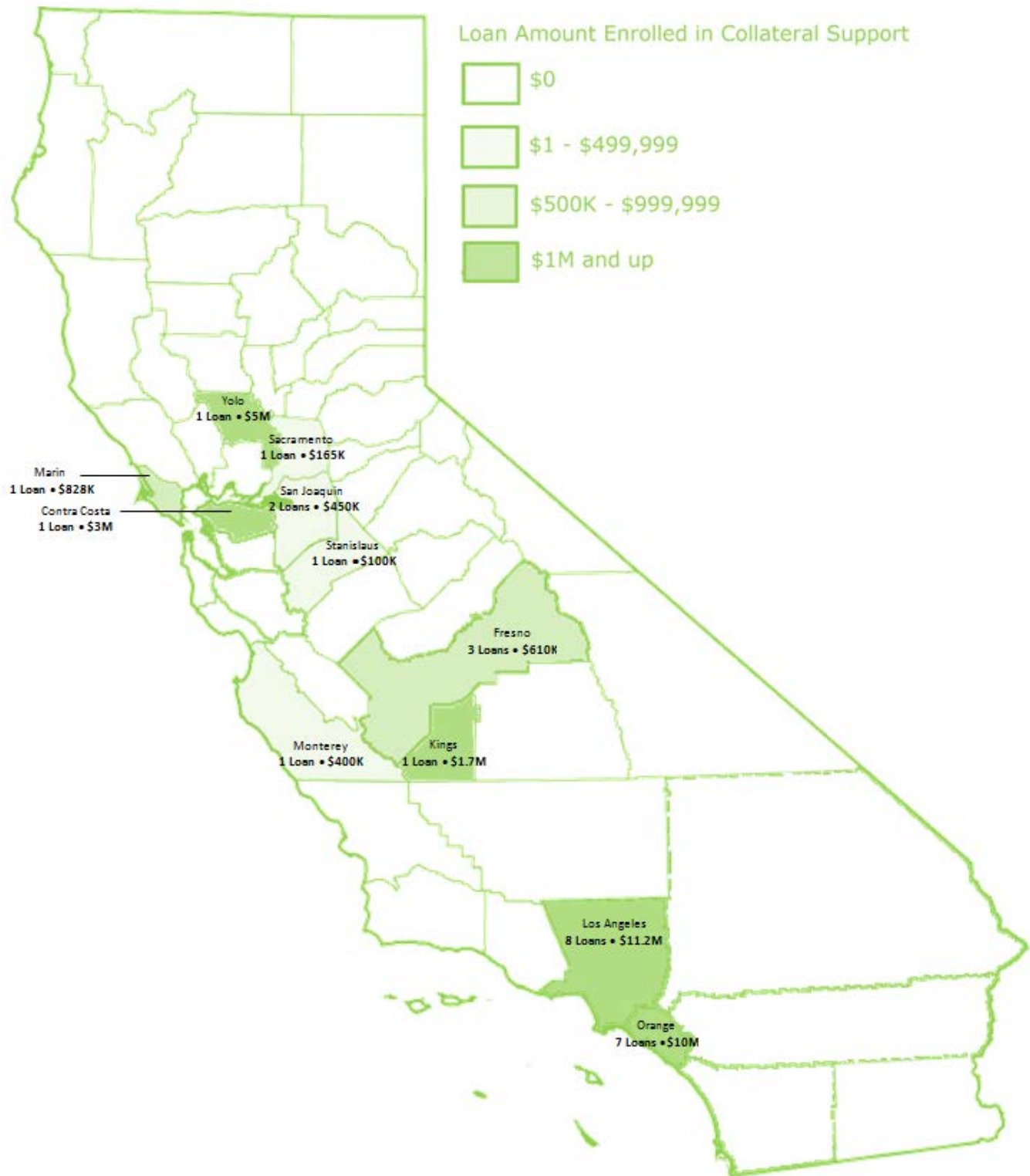


EXHIBIT C – GEOGRAPHIC AREA SEVERED ARB PROGRAMS

